

**UNEMPLOYMENT
INSURANCE
AGENCY**

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Reminder: 2010 FUTA Tax Credit Reduction

Employers file Form IRS 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, on January 31st of each year. The revenue from these taxes is used, in part, to provide loans to states with insolvent unemployment trust funds. Michigan has been borrowing from the federal government to pay unemployment benefits for the past two years.

Federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit was 0.3% for the first year (2009), and will be an additional 0.3% for each succeeding year until the loan is paid.

This FUTA credit reduction results in a net increase in FUTA taxes and applies to all Michigan contributing employers except for Indian Tribes, nonprofit organizations, and governmental entities.

The 2009 FUTA credit reduction was effective January 1, 2009, and was due on federal IRS Form 940 by January 31, 2010. For calendar year 2010, the FUTA credit reduction is 0.6% which will become due to the IRS by January 31, 2011

FUTA tax rate.....	6.2%
Minus Credit allowed.....	- 5.4%*
<i>Equals</i> Net FUTA tax.....	0.8%
Add FUTA Credit Reduction in 2nd year.....	+0.6%
<i>Equals</i> Total FUTA tax.....	1.4%

Employers pay FUTA to the IRS on the first \$7,000 of each employee's annual wages (\$7,000 X 0.8% = \$56). The FUTA credit reduction results in an additional \$21 per employee (\$7,000 X 0.3% = \$21) in the first year that loans are outstanding, and an additional \$21 in each succeeding year that loans remain unpaid.

	Additional \$21/employee	\$77 (\$56 + \$21)	Effective FUTA rate: 1.1%	Due: 01/31/2010
Year 2 (2010)	Additional \$21/employee	\$98 (\$77 + \$21)	Effective FUTA rate: 1.4%	Due: 01/31/2011
Year 3 (2011)	Additional \$21/employee	\$119 (\$98 + \$21)	Effective FUTA rate: 1.7%	Due: 01/31/2012

The FUTA credit reduction is used to pay the state's loan principal. The tax dollars collected by the federal government as a result of the 0.6% FUTA credit reduction are applied directly to Michigan's outstanding loan balance.

**If state unemployment tax is paid timely.*